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40.2714
15 June 1960

5. USSR to Build Steel Plant in Indonesia

On 7 June the USSR and Indonesia signed a contract for the construction of a steel plant in West Java with a production capacity of 100,000 tons of steel a year. The installation will cost an estimated \$60 million dollars of which \$35 million will be allocated from the \$100 million Soviet credit of 1956 for equipment and construction materials. The remaining \$25 million represents local financing and must be generated internally. (FBIS, FE #111, 8 Jun 60, OVO)

The new mill will represent the first step in realizing Indonesia's grandiose plans for developing a heavy industrial base. Internal economic disorder has compounded the problem of locating satisfactory raw materials at sites accessible for larger merchant vessels capable of servicing the archipelago. In 1958 Indonesia hoped to build a smelter in Borneo and a rolling mill in East Java, as its initial step toward an integrated iron-steel-coke-fertilizer complex. (State, Djakarta, Dsp 219, 7 Oct 58, OVO) Although the \$100 million Soviet credit had been available since September, 1956, serious exploration began only toward the end of 1959 and then only in East Java. (State, Djakarta, Dsp 539, 22 Dec 59, LOU; FBIS, FE #9, 14 Jan 60, OVO) A second Soviet-assisted plant was also projected for West Java.

By the time of the Khrushchev trip in February-March 1960, however, the surveys in East Java were apparently discontinued in favor of focusing the initial effort in West Java where a suitable harbor exists.

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With further assistance now expected under the \$250 million Soviet credit

Indonesia's iron and steel industry is currently envisaged as being spread throughout the archipelago. Coal from the Celebes will be used to fire blast furnaces in Borneo and Sumatra which will process iron ore located on these latter islands. The ingots will then be shipped to the rolling mill in West Java. Until the blast furnaces in Borneo and Sumatra are constructed the West Java plant is expected to operate on local iron ore, in large part derived from scrap at present unrecovered and rusting in the jungle. (State, Djakarta, Dsp 838, 18 Mar 60, Confid.).

The West Java steel mill project epitomizes the illusory pretensions and lack of economic reality characteristic of Indonesia's planners, abetted by the Soviet fetish for heavy industrialization under practically all circumstances. Furthermore, as Indonesia lacks the necessary skilled technicians, rupiah reserves, marine transport and internal stability to complete even the West Java mill in the foreseeable future, the larger integrated complex will remain a distant dream for some time to come.

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